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**MARICOPA COUNTY EMPLOYEE  
BENEFITS TRUST FUND  
PHOENIX, ARIZONA  
FINANCIAL STATEMENTS**

**JUNE 30, 2015**

Wealth Advisory

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Audit, Tax, and Consulting

**MARICOPA COUNTY  
EMPLOYEE BENEFITS TRUST FUND  
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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors of  
Maricopa County Employee Benefits Trust Fund  
Maricopa County, Arizona

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Maricopa County Employee Benefits Trust Fund (an internal service fund of Maricopa County), which comprise the statement of net position – internal service fund as of June 30, 2015, and the related statements of revenues, expenses and changes in net position – internal service fund, and cash flows – internal service fund for the year then ended, and the related notes to the financial statements, and the statement of changes in assets and liabilities – internal service fund of the Employee Benefits Agency Fund for the year then ended.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Supervisors of  
Maricopa County Employee Benefits Trust Fund

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Employee Benefits Trust Fund as of June 30, 2015, and the changes in its net position and its cash flows for the year then ended, and the changes in the agency fund assets and liabilities of the Employee Benefits Agency Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

*Change in Accounting Principle*

During fiscal year ended June 30, 2015, the Maricopa County Employee Benefits Trust Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. As a result of the implementation of GASBS No. 68 and 71, Maricopa County Employee Benefits Trust Fund reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 5 through 8 and its schedule of the Maricopa County Employee Benefits Trust Fund's proportionate share of the net pension liability and contributions on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the Maricopa County Employee Benefit Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maricopa County Employee Trust Fund's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Phoenix, Arizona  
December 14, 2015





CliftonLarsonAllen LLP  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Supervisors of  
Maricopa County Employee Benefit Trust Fund  
Maricopa County, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Maricopa County Employee Benefit Trust Fund (an internal service fund of Maricopa County), which comprise the statement of net position – internal service fund as of June 30, 2015 and the related statements of revenues, expenses, and changes in net position – internal service fund and cash flows – internal service fund for the year ended June 30, 2015, and the related notes to the financial statements, and the statement of changes in assets and liabilities – internal service fund of the Employee Benefits Agency Fund for the year then ended which collectively comprise Maricopa County Employee Benefit Trust Fund's basic financial statements, and have issued our report thereon dated December 14, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Maricopa County Employee Benefit Trust Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maricopa County Employee Benefit Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Maricopa County Employee Benefit Trust Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Supervisors of  
Maricopa County Employee Benefit Trust Fund

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Maricopa County Employee Benefit Trust Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

Phoenix, Arizona  
December 14, 2015

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Management's Discussion and Analysis**  
**June 30, 2015**

This section of the financial statements of the Maricopa County Employee Benefits Trust Funds presents a discussion and analysis of its financial performance for the fiscal year ended June 30, 2015. Management's Discussion and Analysis (MDA) is to be read in conjunction with the basic financial statements.

**Overview of the Financial Statements**

Maricopa County, Arizona (County) established a Trust Fund and declares itself Self-Insured under the provisions of Arizona Revised Statute (A.R.S.) 11-981. For financial statement presentation purposes, the Self-Insured Trust Fund is reported as the Employee Benefits Trust Fund (Trust Fund). The Trust Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies as applicable. The primary purpose of the Employee Benefits Operation Fund is to provide certain health benefits (medical, dental, pharmacy, short-term disability, medical incentives, behavioral health and vision) to eligible County employees and their dependents. The Employee Benefits Agency Fund is used to account for fully insured products.

The basic financial statements are presented on the accrual basis of accounting. The basic financial statements are as follows:

Statement of Net Position

This statement presents information reflecting the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and accumulated net position of the Employee Benefits Operation Fund as of June 30, 2015.

Statement of Revenues, Expenses and Changes in Net Position

This statement reflects the revenues and expenses, as well as non-operating revenues of Employee Benefits Operation Fund for the fiscal year ended June 30, 2015.

Statement of Cash Flows

This statement reflects the cash flows from operating, investing, capital and related financing activities of Employee Benefits Operation Fund for the fiscal year ended June 30, 2015.

Statement of Changes in Assets and Liabilities

This statement presents information reflecting the assets and liabilities of Employee Benefits Agency Fund for the fiscal year ended June 30, 2015.

**Financial Highlights**

The more significant highlights of fiscal year 2015 as compared to fiscal year 2014 follows:

- Cash and cash equivalents decreased \$12,382,845 from \$45,855,345 as of June 30, 2014 to \$33,472,500 as of June 30, 2015.
- Total assets decreased \$19,540,746 from \$55,383,420 as of June 30, 2014 to \$35,842,674 as of June 30, 2015.

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Management's Discussion and Analysis**  
**June 30, 2015**

Cash and cash equivalents decreased by \$12.4 million or 27.0% as of June 30, 2015 compared to June 30, 2014. The decrease is primarily attributable to the operating loss of \$20.3 million from \$129.4 million in revenues being offset by \$149.9 million in operating expenditures, with only \$231,854 in interest income from investing activities. The cash decline was partially offset by the increase in the reserve for losses and loss expenses of \$2.0 million and was further offset by the decrease in accounts receivable of \$6.1 million which was primarily due to a \$5.9 million refund received from Cigna in December 2015 related to an overcharge for capitation fees.

Reserve for losses and loss expenses increased by \$2,000,804 or 17%. The increase mainly resulted from large medical claims occurring immediately before year end. The increase occurred in Medical \$2,030,018, in Dental \$100,004 and in Vision \$24,287 that was partially offset by decreases in Short-Term Disability (STD) \$65,048, and in Behavior Health \$97,860.

Accounts payable and accrued liabilities decreased by \$1,295,556 from June 30, 2014 to June 30, 2015.

**Capital Assets and Related Debt**

The Trust Fund's investment in capital assets as of June 30, 2015, amounted to \$27,832 net of accumulated depreciation. Capital assets consist of office equipment and one vehicle. No long-term debt was added in 2015.

Depreciation expense in the Employee Benefits Trust Fund for fiscal year 2015 was \$2,999 and for fiscal year 2014 was \$208.

**Summary of Revenues and Expenses and Changes in Net Position**

	<u>2015</u>	<u>2014</u>
<b>Revenue</b>		
Operating revenue	\$ 129,375,206	\$ 127,898,463
Refund of premiums		3,450,568
Investment income	231,834	15,139
<b>Total Revenue</b>	<u>129,607,040</u>	<u>131,364,170</u>
<b>Expenses</b>		
Losses and loss expenses	137,910,814	130,629,777
All other expenses	11,972,786	9,777,828
Return of contributions		3,423,209
<b>Total Expenses</b>	<u>149,883,600</u>	<u>143,830,814</u>
<b>Changes in Net Position</b>	<u>\$ (20,276,560)</u>	<u>\$ (12,466,644)</u>



**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Management's Discussion and Analysis**  
**June 30, 2015**

**Revenues and Expenses and Changes in Net Position**

Operating revenue increased by \$1.5 million or 1.2%. The increase in operating revenue is primarily a result of an increase in enrollment year over year. Investment income increased \$216,695 in fiscal year 2015 due to favorable market value adjustments.

Operating expenses increased by approximately \$6.0 million or 4.2%. This increase is due to an increase of \$7.3 million in loss and losses expenses. Specifically, increases occurred in medical claims by \$6.6 million, and in specialty pharmacy by \$3.0 million largely related to Hepatitis C medications. In addition, all other operating expenses increased \$2.2 million partially due to the \$1.7 million Transitional Reinsurance Fee which is paid to the Federal Government as part of the Affordable Care Act in fiscal year 2015.

Non-operating revenues were zero as compared to \$3.5 million in fiscal year 2014 which consisted of a refund of life insurance premiums that was received for distribution to members.

Non-operating expenses were zero as compared to \$3.4 million in fiscal year 2014 which was the refund to members of a life insurance rebate.

The changes in net position was a negative of \$20.3 million for 2015, an unfavorable increase of approximately \$7.8 million from fiscal year 2014.

**Economic Factors and Budget Planning**

During the budget and planning process for fiscal year 2015, it was noted Maricopa County was one of the hardest hit counties in the nation in terms of the number of foreclosures and housing value depreciation. With this in mind, a conservative fiscal policy is being practiced by Maricopa County. Property Tax rates have been reduced and the County's other main sources of revenue (sales tax, vehicle license tax, and jail taxes) have rebounded slowly.

The Employee Benefits Trust Fund budget for fiscal year 2016 included approximately 8.7 percent premium rate increases. Benefit claims, administration expenses and wellness activities have been budgeted at the level of benefit premiums. However, the cost allocation charged to departments for benefit premium costs was held flat, resulting in a cash inflow shortfall of \$6.0 million. This revenue shortfall is expected to be offset with benefit holidays during fiscal year 2016. The purpose of the benefit holidays is to reduce the Trust Fund's net position to be more in line with the recommended reserve levels determined by an outside actuary.

**Contact Information**

The management report is to provide our participants, customers and consultants with a general overview of the Fund finances. If you have any questions about this report or need additional information, please contact the Business Strategies and Healthcare Programs, Employee Benefits Finance, 301 W. Jefferson St. Suite 3200, Phoenix, AZ 85003 or at [www.maricopa.gov](http://www.maricopa.gov).

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Statement of Net Position - Internal Service Fund**  
**June 30, 2015**

	<u>Employee Benefits Operating Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 33,472,500
Interest receivable	48,819
Accounts receivable	598,705
Prepaid insurance	1,694,818
Capital assets, net	27,832
<b>Total assets</b>	<u>35,842,674</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pensions	245,692
<b>Total deferred outflows of resources</b>	<u>245,692</u>
<b>Liabilities</b>	
Accounts payable	2,482,709
Accrued liabilities	1,859,043
Employee compensation payable	178,173
Reserve for losses and loss expenses	13,688,100
Net Pension Liability	1,728,045
<b>Total liabilities</b>	<u>19,936,070</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pensions	302,182
<b>Total deferred inflows of resources</b>	<u>302,182</u>
<b>Net Position</b>	
Investment in capital assets	27,832
Unrestricted	15,822,282
<b>Total net position</b>	<u><u>\$ 15,850,114</u></u>

The accompanying notes are an integral part of the financial statements

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position —Internal Service Fund**  
**Year Ended June 30, 2015**

	<u>Employee Benefits Operating Fund</u>
<b>Operating revenues:</b>	
Charges for services	\$ 1,191,578
County and employee premiums	<u>128,183,628</u>
<b>Total operating revenues</b>	<u>129,375,206</u>
<b>Operating expenses:</b>	
Personal services	1,610,663
Supplies and services	10,347,936
Claims, losses and loss expenses	137,910,814
Depreciation	<u>2,999</u>
<b>Total operating expenses</b>	<u>149,872,412</u>
Operating loss	<u>(20,497,206)</u>
<b>Nonoperating revenues/(expenses):</b>	
Investment income	<u>231,834</u>
<b>Total nonoperating revenues/(expenses)</b>	<u>231,834</u>
<b>Decrease before transfers</b>	(20,265,372)
Transfers Out	<u>(11,188)</u>
<b>Changes in net position</b>	(20,276,560)
<b>Total net position, July 1, 2014</b>	37,899,371
<b>Restatement of net position</b>	<u>(1,772,697)</u>
<b>Total net position, June 30, 2015</b>	<u><u>\$ 15,850,114</u></u>

The accompanying notes are an integral part of the financial statement

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Statement of Cash Flows—Internal Service Fund**  
**Year Ended June 30, 2015**

	<u>Employee Benefits Operating Fund</u>
<b>Cash flows from operating activities:</b>	
Receipts from employees and other funds	\$ 135,479,047
Payments for goods, services, claims, and benefits	(146,499,610)
Payments to employees	(1,580,097)
Net cash used in operating activities	(12,600,660)
<b>Cash flows from noncapital and related financial activities:</b>	
Cash transfers to other funds	(11,188)
<b>Cash flows from capital and related financial activities:</b>	
Purchase of capital assets	(24,905)
<b>Cash flows from investing activities:</b>	
Interest received on investments	253,908
Net decrease in cash and cash equivalents	(12,382,845)
 Cash and cash equivalents, July 1, 2014	 45,855,345
Cash and cash equivalents, June 30, 2015	\$ 33,472,500
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (20,497,206)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,999
Changes in assets and liabilities:	
Accounts receivable	6,103,841
Prepaid insurance	1,053,892
Pension Contribution	
Accounts payable	1,335,546
Accrued liabilities	(2,631,102)
Employee compensation payable	30,566
Net Pension Liability	
Reserve for losses and loss expenses	2,000,804
Net cash used in operating activities	\$ (12,600,660)
<b><u>Schedule of Noncash Investing, Capital, and Noncapital Financing Activities</u></b>	
Accumulated depreciation from disposed capital assets	\$ 20,970
Machinery and equipment disposed	\$ (20,970)

The accompanying notes are an integral part of the financial statements

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Statement of Changes in Assets and Liabilities – Internal Service Fund**  
**Year Ended June 30, 2015**

<b><u>EMPLOYEE BENEFITS AGENCY FUND</u></b>				
	<b>Balance</b>			<b>Balance</b>
	<b><u>July 1, 2014</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2015</u></b>
<b>Assets</b>				
Cash and cash equivalents	\$ 909,481	\$ 17,600,704	\$ 17,175,138	\$ 1,335,047
Accounts receivable	-	14,287,049	14,287,049	-
<b>Total assets</b>	<b><u>\$ 909,481</u></b>	<b><u>\$ 31,887,753</u></b>	<b><u>\$ 31,462,187</u></b>	<b><u>\$ 1,335,047</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 57,036	\$ 3,616,254	\$ 3,605,430	\$ 67,860
Premiums payable	852,445	15,105,982	14,691,240	1,267,187
<b>Total liabilities</b>	<b><u>\$ 909,481</u></b>	<b><u>\$ 18,722,236</u></b>	<b><u>\$ 18,296,670</u></b>	<b><u>\$ 1,335,047</u></b>

The accompanying notes are an integral part of the financial statements

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Maricopa County, Arizona (the County), in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a trust fund and declares itself self-insured. For financial statement presentation purposes, the Self-insured Trust Fund is reported as the Employee Benefits Trust Fund (Fund) and all monies held in the Fund are considered restricted for purposes of self-insurance. The Fund includes the Employee Benefits Operation Fund and the Employee Benefits Agency Fund (collectively “the Fund”). The Fund’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The accompanying financial statements are those of the Fund and do not represent the financial statements of the County. The Maricopa County, Arizona *Comprehensive Annual Financial Report* as of and for the year ended June 30, 2015, will report the Fund as a governmental activity in the government-wide financial statements since it predominantly services the County’s governmental funds. A summary of the Fund’s significant accounting policies follows.

**A. Reporting Entity**

The Fund is accounted for as an internal service fund of Maricopa County, Arizona, under the direction of an administrator appointed by the County Manager. In addition, the Fund is administered by no less than six joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County. The County Board of Supervisors and County Manager each appoint one trustee. However, the ultimate financial accountability for the Fund remains with the County. The County is responsible for the management and operations of the financing of the uninsured risks of loss related to certain health benefits (medical, dental, pharmacy, short-term disability, medical incentives, behavioral health and vision) to eligible County employees and their dependents.

**B. Agency Fund**

Agency funds are used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and other funds. The Fund has one agency fund to account for employee withholding premiums for fully insured policies.

**C. Fund Accounting**

The Fund’s accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Fund available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources.



**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Notes to Financial Statements**  
**June 30, 2015**

**C. Fund Accounting (Continued)**

The Fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The Fund's financial transactions are recorded and reported as an internal service fund since its operations are financed and operated in a manner similar to private business enterprises. The intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to other departments within the County on a continuing basis be financed or recovered primarily through user charges.

**D. Basis of Presentation and Accounting**

The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and a statement of changes in assets and liabilities.

The statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Fund at the end of the year. Assets and liabilities are unclassified. Investment in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net position represents the balance of monies held in the Fund.

The statement of revenues, expenses, and changes in net position provide information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or non-operating, and all changes in net position are reported. Generally, charges for services and premiums are considered to be operating revenues. Other revenues such as investment income are not generated from operations and are considered to be non-operating revenues. The cost of services, administrative expenses, and depreciation on capital assets are considered to be operating expenses.

The statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, investing, capital or noncapital financing.

The statement of changes in assets and liabilities provides information about the Employee Benefits Agency Fund's financial activities during the year. Additions are premiums collected from employees and the County. Deductions are payments made to third party providers.

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Notes to Financial Statements**  
**June 30, 2015**

**D. Basis of Presentation and Accounting (Continuing)**

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**E. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**F. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Fund considers cash on hand, demand deposits, cash on deposit with the County Treasurer, and highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

**G. Capital Assets**

Equipment is initially recorded at cost. Depreciation of equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of equipment range from 3 to 10 years.

**H. Deferred Outflows and Deferred Inflows of Resources**

The Fund recognizes the consumption of net position that are applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under Governmental Accounting Standards Board (GASB), Statement No. 68.

The Fund recognizes the acquisition of net position that are applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Notes to Financial Statements**  
**June 30, 2015**

**I. Reserve for Losses and Loss Expenses**

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other socioeconomic factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

**J. Employee Compensation Payable**

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Classified employees may accumulate up to 240 hours of vacation leave. Unclassified employees may accumulate up to 320 hours of vacation leave. Any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, County employees with accumulated sick leave in excess of 1,000 hours are entitled to a \$10,000 nontaxable investment in a Post Employment Health Plan established pursuant to Internal Revenue Code §501(c)(9). The obligations vested at June 30, 2015, under this policy are accrued as a liability.

Compensated absences are substantially paid within one year from fiscal year-end.

**K. Income Tax**

The Fund is a component unit of Maricopa County, Arizona, a governmental agency, and is exempt from federal and state income taxes.

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**NOTE 2 – DEPOSITS AND INVESTMENTS**

Arizona Revised Statutes (Statutes) authorize the Fund to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and certain open-ended and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

**Credit risk**

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be within the top three ratings by a nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody's Investors Service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

**Custodial credit risk**

Statutes require collateral for deposit at 102 percent of all deposits federal depository insurance does not cover.

**Concentration of credit risk**

Statutes do not include any requirements for concentration of credit risk.

**Interest rate risk**

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

**Deposits**—At June 30, 2015, the carrying amount of the Fund's deposits was \$3,467,924 and the bank balance was \$3,491,309. It is the County's investment policy to collateralize all deposits not covered by depository insurance in accordance with Statutes. At a minimum, the collateral is to be held by the pledging financial institution or its agent, but does not have to be held in the County's name.

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**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments**—The Fund's investments at June 30, 2015, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Fund's investments in the pool represent a portion of the County Treasurer's pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Fund's portion in the pool is not identified with specific investments.

**Credit Risk**—The Fund follows the County's policy to preserve the principal value and the interest income of an investment. The County can invest in obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities. The County can also invest in commercial paper and corporate bonds with ratings that meet the statutory requirements specified above. At June 30, 2015, the Fund's investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

**Interest rate risk**—It is the County's policy to hold investments to maturity, where practical, and avoid any loss on investments resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable. At June 30, 2015, the Fund had investments of \$30,004,576 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 366 days, of which 45% of pooled investments have maturities of 90 days or less. The County invests the pooled investments primarily in U.S. government agency securities.

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Position follows:

Cash, deposits, and investments:	
Amount of deposits	\$ 3,467,924
County Treasurer's Investment Pool	30,004,576
Total	<u>\$ 33,472,500</u>

**NOTE 3 – RESERVE FOR LOSSES AND LOSS EXPENSES**

The Fund provides for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but unpaid (RBUC), and of claims that have been incurred but not reported (IBNR).

The liability for medical, dental, short-term disability, behavioral health, and vision claims as shown below is based on the fiscal year 2015 actuarial reports.

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**NOTE 3 – RESERVE FOR LOSSES AND LOSS EXPENSES (CONTINUED)**

Accrued claims liabilities at June 30, 2015, for each insurable area follow:

Medical	\$ 12,264,639
Dental	654,002
Short-term Disability	463,942
Behavioral Health	128,297
Vision	167,817
Pharmacy	9,403
Total	<u>\$ 13,688,100</u>

Changes in the liabilities for unpaid medical, dental, short-term disability, vision, and behavioral health claims follow:

	<u>FY 2014-15</u>	<u>FY 2013-14</u>	<u>FY 2012-13</u>
Balance July 1	\$ 11,687,296	\$ 8,286,946	\$ 10,935,967
Current-Year Claims ar			
Changes in Estimates	137,910,814	130,629,777	111,466,605
Claim Payments	(135,910,010)	(127,229,427)	(114,115,626)
Balance June 30	<u>\$ 13,688,100</u>	<u>\$11,687,296</u>	<u>\$8,286,946</u>

It is estimated that the June 30, 2015, all liabilities balance of \$13,688,100 will be paid within the next 12 months.

**NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE**

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.



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June 30, 2015**

**NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)**

	Governmental Activities
Beginning net position as previously reported at June 30, 2014	\$ 37,899,371
Restatement adjustment - Implementation GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(1,885,341)
Deferred outflows - Fund contributions made during fiscal year 2014	<u>112,644</u>
Total restatement adjustment	<u>(1,772,697)</u>
<b>Net position as restated, July 1, 2014</b>	<u><b>\$ 36,126,674</b></u>

**NOTE 5 – RETIREMENT PLAN**

The Fund contributes to the Arizona State Retirement System (ASRS) Plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2015, the Fund reported the following aggregate amounts related to pensions for the plan to which it contributes.

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension liabilities	\$1,728,045
Deferred outflows of resources	245,692
Deferred inflows of resources	302,182
Pension expense	130,681

**Plan Description**—The Fund’s employees participate in the Arizona State Retirement System. The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement system Board governs the ASRS according to the provisions of A.R.S. Title 38, chapter 5, Articles 2 and 2.1. The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://www.azasrs.gov).

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EMPLOYEE BENEFITS TRUST FUND  
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June 30, 2015**

**NOTE 5 – RETIREMENT PLAN (CONTINUED)**

**Benefits Provided** – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on a basis of age, average monthly compensation, and service credit as follows.

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service	Sum of years and age equals 80	30 years age 55
and age required to receive benefit	10 years age 62 5 years age 50* any years age 65	25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percentage per year-of-service	2.1% to 2.3 %	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

**Contributions** – In accordance with state statute, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the cost of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability.

**MARICOPA COUNTY**  
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**June 30, 2015**

**NOTE 5 – RETIREMENT PLAN (CONTINUED)**

**Contributions (continued)**– For the year ended June 30, 2015, active ASRS members were required by Statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the County was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long term disability) of the active members' annual covered payroll. In addition, the County was required by Statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the County in positions that would typically be filled by an employee who contributes to the ASRS.

The Fund's contributions to the ASRS for the years ended June 30, 2015, 2014 and 2013 were \$126,593, \$121,233, and \$116,371, respectively.

Years ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	\$ 6,439	\$1,310
2014	6,135	2,454
2013	6,790	2,508

**Pension Liability** – At June 30, 2015, the Fund reported a liability of \$1,728,045 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The Fund's proportion of the net pension liability was based on the Fund's share of the County's June 30, 2015 net pension liability of \$740,172,934. At June 30, 2014, the Fund's proportion was 0.23 percent of the County's net pension liability, which was a decrease of 0.02 percent from its proportion measured as of June 30, 2013.

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
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June 30, 2015

**NOTE 5 – RETIREMENT PLAN (CONTINUED)**

**Pension Expense and Deferred Outflows/Inflows of Resources** – For the year ended June 30, 2015; the Fund recognized pension expense for ASRS of \$130,681. At June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 87,824	\$
Changes of assumptions or other inputs		
Net difference between projected and actual earnings on pension plan investments		302,182
Changes in proportion and differences between fund contributions and proportionate share of contributions	39,024	
Fund contributions subsequent to the measurement date	118,844	
Total	<u>\$ 245,692</u>	<u>\$ 302,182</u>

The Fund reported \$118,844 as deferred outflows of resources related to ASRS pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

<b>Year ending June 30</b>	
2016	\$(20,394)
2017	(20,394)
2018	(59,000)
2019	(75,546)

**MARICOPA COUNTY**  
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**NOTE 5 – RETIREMENT PLAN (CONTINUED)**

**Actuarial assumptions** – The significant actuarial assumptions used to measure the total pension liability are as follows:

**ASRS**

Actuarial valuation date	6/30/2013
Actuarial roll forward date	6/20/2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Amortization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Notes to Financial Statements**  
**June 30, 2015**

**NOTE 5 – RETIREMENT PLAN (CONTINUED)**

The target allocation and best estimates of arithmetic real rates for each major asset class are summarized in the following table:

ASRS		Long-Term
Asset Class	Target Allocation	Expected Real Rate of Return
Equity	63%	4.43%
Fixed income	25%	0.80%
Real estate	8%	0.38%
Commodities	4%	0.18%
Inflation		3.00%
Total	100%	8.79%

**Discount Rate** – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of Return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Funds Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate** – The following table presents the fund’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the fund’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Proportionate share of the net pension liability	\$ 2,184,160	\$ 1,728,045	\$ 1,480,579

**Pension Plan Fiduciary Net Position** – Detailed information about the pensions plan’s fiduciary net position is available in the separately issued ASRS financial report.



**MARICOPA COUNTY  
EMPLOYEE BENEFITS TRUST FUND  
Required Supplementary Information  
Schedule of the Fund's Proportionate Share of Net Pension Liability and Contributions  
Cost-Sharing Pension Plans  
June 30, 2015**

Arizona State Retirement System	<u>Fiscal Year</u>	
	<u>2015</u> <u>(2014)</u>	<u>2014</u> Through <u>2006</u> Information not available
Proportion of the net pension liability	0.0115%	
Proportionate share of the net pension liability	\$ 1,728,045	
Covered-employee payroll	\$ 1,004,618	
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.01%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

Arizona State Retirement System	<u>Fiscal Year</u>	
	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 118,844	\$ 112,644
Contributions in relation to the statutorily required contribution	\$ 118,844	\$ 112,644
Contribution deficiency (excess)	\$ 0	\$ 0
Covered-employee payroll	\$ 1,063,996	\$ 1,004,618
Contributions as a percentage of covered-employee payroll	11.0%	10.9%

**MARICOPA COUNTY**  
**EMPLOYEE BENEFITS TRUST FUND**  
**Notes to required Supplementary Information**  
**June 30, 2015**

Note 1 - Actuarially Determined Contribution Rates

Actuarial determined contribution rates for ASRS are calculated as of June 30 one year prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

ASRS	
Actuarial valuation date	6/30/2013
Actuarial roll forward date	6/20/2014
Actuarial cost method	Entry age normal
Amortization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB